

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2004-003-E - ORDER NO. 2004-274
OCTOBER 14, 2004

IN RE: Annual Review of Base Rates for Fuel Costs)
of Duke Power.)
)
)

ORDER ON ANNUAL
REVIEW OF BASE
RATES FOR FUEL
COSTS

On May 19, 2004, the Public Service Commission of South Carolina (the Commission) held a public hearing on the issue of the recovery of the costs of fuel used in electric generation by Duke Power, a division of Duke Energy Corporation (Duke or the Company), to provide service to its South Carolina retail customers. The procedure followed by the Commission is set forth in S.C. Code Ann. Section 58-27-865 (Supp. 2003). The review in this case uses the actual fuel revenues and expenses from April, 2003 through March, 2004 to determine an appropriate fuel factor for the period of June 1, 2004, through May 31, 2005.

At the public hearing, William F. Austin, Esquire, and Lara S. Nichols, Esquire, represented the Company; Hana Pokorna-Williamson, Esquire, represented the Intervenor, the Consumer Advocate for the State of South Carolina (the Consumer Advocate); and F. David Butler, General Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of two witnesses on behalf

of the Company, two witnesses on behalf of the Commission Staff, and fifteen (15) hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from April, 2003 through March, 2004, the Company's actual total fuel costs for its electric operations amounted to \$792,282,108. Hearing Exhibit No. 14, Audit Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for the Company's fossil, nuclear and hydro-electric plants for April, 2003 through March, 2004. The fossil generation ranged from a high of 52% in December, 2003 to a low of 33% in April, 2003. The nuclear generation ranged from a high of 64% in April, 2003 to a low of 47% in December, 2003. The percentage of generation by hydro ranged from 1% to 3% for this period. Hearing Exhibit No. 15; Utilities Department Exhibit No. 3.

3. During the April, 2003 through March, 2004 period, coal suppliers delivered 16,617,003.36 tons of coal. The Commission Staff's audit of the Company's actual fuel procurement activities demonstrated that the average monthly cost of coal varied from \$40.10 per ton in April, 2003 to \$47.70 per ton in March, 2004. Hearing Exhibit No. 14, Audit Exhibit A.

4. Staff collected and reviewed certain generation statistics of major Company plants for the twelve months ending March 31, 2004. Hearing Exhibit No. 15,

Utilities Department Exhibit No. 4. The nuclear fueled Oconee and Catawba Plants were lowest cost at 0.39 and 0.40 cents per kilowatt-hour, respectively. The highest amount of generation was 18,636,561 megawatt-hours produced at the nuclear fueled Oconee Plant. Id.

5. The Commission Staff conducted an extensive review and audit of the Company's fuel purchasing practices and procedures for the subject period. The Staff's audit witness, Jacqueline R. Cherry, testified that the Company's fuel costs were supported by the Company's books and records. Revised Testimony of Cherry, Hearing Exhibit No. 14; Audit Department Exhibits.

6. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. §58-27-865 establishes a procedure whereby the difference between the recovery of fuel costs through base rates and the actual fuel costs incurred would be accounted for by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

7. The record of this proceeding indicates that the comparison of the Company's fuel revenues and expenses for the period April 1, 2003, through March 31, 2004 produces a cumulative over-recovery of \$11,424,295. The Company and the

Consumer Advocate agreed on a Stipulation in April, 2004 concerning the treatment of various purchased power costs that was an issue in the previous Duke fuel hearings of Docket No. 2002-3-E and Docket No. 2003-3-E. The Stipulation was subsequently approved by the Commission on May 4, 2004. The Stipulation provided that the Company would “forego recovery of \$500,000.00” in fuel costs as a settlement amount for the two aforementioned fuel dockets. At the time of the Stipulation, the Company had already booked a reverse journal entry of \$566,033 (\$564,000 before the tax factor of 1.0044) that could be considered in favor of the ratepayers. On this basis, the Staff reflected the Stipulation as a “Stipulation Adjustment” of \$500,000 as an over-recovery adjustment in the calculation of the cumulative deferred over-recovery balance as of March, 2004. Staff added the projected under-recovery of (\$1,347,338) for the month of April, 2004 and the projected under-recovery of (\$3,748,985) for May, 2004 to arrive at a cumulative over-recovery of \$6,327,972. Cherry Testimony at 7; Hearing Exhibit 14, Audit Exhibit G.

8. The Company’s projected average fuel expense for the June, 2004 through May, 2005 period is 1.2878 cents per kilowatt-hour. Hager Testimony at 16 and Hearing Exhibit 9.

9. Company witness Janice Hager, Vice President for Rates and Regulatory Affairs, proposes that the fuel component remain at its current level of 1.150 cents per kilowatt-hour in base rates. Hager Testimony at 16-17.

The exhibits of Staff witness A.R. Watts show that if the base fuel component remains at 1.150 cents per kilowatt-hour for this period, it will produce an estimated

under-recovery of (\$29,199,833). Hearing Exhibit No. 15, Utilities Department, Exhibit No. 11.

10. During the period under review, several outages occurred at the Company's nuclear plants. The Commission Staff examined each plant outage by reviewing the Company's reports and correspondence between the Company and the Nuclear Regulatory Commission (NRC) concerning the outages which required reporting. The Staff then spent time with Company representatives to discuss each outage and the sequence of events which led to the outage and those which dictated the duration of the outages. The Staff testified that there were no Company actions which subjected Duke's customers to incurring higher fuel costs. The actual average nuclear system capacity factor for the review period was 89.66%, which included five full or partial refueling outages and replacement of the Reactor Vessel Heads at the three Oconee Units as well as replacement of the Steam Generators at two of these Units during the review period. The major fossil units averaged over 90% availability for the majority of the period under review. Testimony of Watts at page 2. Company witness Hager testified that the Company's achieved net nuclear capacity factor reflecting reasonable outage time for the review period was 102.38%, which was well above 92.5% set forth in S.C. Code Ann. §58-27-865. Testimony of Hager at 7, Hearing Exhibit 3, Hager Exhibit 1, page 1.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann. Section 58-27-865(B) (Supp. 2003), each electrical utility must submit to the Commission its estimates of fuel costs for the next

twelve (12) months. Following an investigation of these estimates, and after a public hearing, the Commission directs each electrical utility “to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period.” Id.

2. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F) requires the Commission “to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its customers.” “[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error.” Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

3. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility’s reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

4. Further, S.C. Code Ann. Section 58-27-865(F) (Supp. 2003) provides that:

[t]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system.... if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the

period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system. If the net capacity factor is below ninety-two and one-half percent after reflecting the above specified outage time, then the utility shall have the burden of demonstrating the reasonableness of its nuclear operations during the period under review.

5. This Commission has reviewed, i) all of the evidence of record in this docket, ii) the operating efficiencies of the Company during the review period, and iii) Staff testimony and exhibits, and we find and conclude that Duke has met the test of the applicable statute. We have reviewed each outage and the sequence of events which led to each outage and conclude that the outages were the result of reasonable maintenance and equipment repair and replacement. We find that there were no acts of the utility which were imprudent or which subjected Duke's customers to incurring higher fuel costs. Therefore, we conclude that no disallowance of fuel costs during the review period is justified, and we find that Duke took reasonable steps to safeguard against error and to minimize the total costs of providing service. We find that the Company's net nuclear fleet capacity factor for the review period, adjusted for reasonable refueling and other outages, exceeds the 92.5% threshold required by the statute.

6. After considering the directives of S.C. Code Ann. Section 58-27-865(B) which require the Commission to place in the Company's base rate an amount which allows the Company to recover its fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve month period, the Commission has determined that the appropriate base fuel factor for the period June 1, 2004 through May, 2005 is 1.150 cents per kilowatt-hour. The Commission finds that, while a 1.150 cents per kilowatt-hour component may be insufficient to allow Duke to fully recover its projected fuel costs over the next year, there is enough uncertainty in the forecasted under-recovery to balance the required increase to eliminate the forecasted under-recovery with the desire to prevent abrupt changes in charges to Duke's customers.

7. The Consumer Advocate and the Company agreed on a Stipulation in April, 2004, which was approved by the Commission on May 4, 2004, concerning the treatment of various Purchased Power Costs which had been the subject of appeals in previous Duke fuel hearings of Docket No. 2002-03-E and 2003-03-E. This Stipulation provides that the Company will forego recovery of \$500,000 in fuel costs as a settlement of the two appeals. We hereby accept the Commission Staff's reflection of this \$500,000 in its adjustments as a "Stipulation Adjustment" for \$500,000 of over-recovery in the calculation of the cumulative deferred over-recovery balance as of March 2004. Testimony of Cherry at 5. This treatment resolves the dispute between the Consumer Advocate and the Company in the previously cited Dockets and is in compliance with the newly enacted revisions to S.C. Code Ann. Section 58-27-865 which allows an electric utility to recover as a fuel cost through the electric utility's fuel cost factor the electric

utility's entire purchased power costs incurred during the period under review, provided such purchase power costs are less than the fuel costs the electric utility avoids by making such purchase.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period June, 2004 through May, 2005 is set at 1.150 cents per kilowatt-hour.
2. Duke shall file an original and ten (10) copies of the fuel tariff within ten (10) days of the receipt of this Order.
3. Duke shall comply with the notice requirements set forth in S. C. Code Ann. Section 58-27-865(B) (Supp. 2003).
4. Duke shall continue to file the monthly reports as previously required.
5. Duke shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.
6. Duke shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

/s/
Randy Mitchell, Chairman

ATTEST:

/s/
G. O'Neal Hamilton, Vice Chairman

(SEAL)